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SUBJECT: STARWOOD HOTEL MANAGEMENT PULLING OUT OF
TURKMENISTAN

¶1. Summary: Starwood General Manager Holger Wessel informed Ambassador today that Starwood, which manages the Sheraton Grand Turkmen and Four Points Ak Altyn Hotels, will be pulling out of Turkmenistan by the end of the month.

According to Wessel, the move has been a long time in coming.

The State Committee under the Ministry of Sport and Tourism, which owns the hotels, has refused to invest in the infrastructure and training required to meet Starwood standards as required under the terms and conditions of the management contract. End Summary.

¶2. Holger reported that "secret shopper" inspections of the property showed them meeting only 55 percent of Starwood standards. According to Holger, the owners have no understanding of preventative maintenance and no willingness to fund maintenance contracts. They have refused to allow local employees to go abroad for training, and insist on awarding service and supply contracts in a non-transparent way (read: lining their own pockets), resulting in a poor level of service.

¶3. During a Starwood corporate visit in December, the State Committee confirmed that it "did not have the money" for the physical maintenance or employee training required by Starwood. At that time, Starwood and the State Committee agreed verbally to an "amicable divorce" at the end of March.

Starwood requested written confirmation, but the Chair of the State Committee said he was not able to take the official decision himself -- it would require a decree from the President. Holger does not believe anyone ever informed Niyazov. Starwood has sent two letters to the State Committee stating the company's intention to leave by the end of March, but has not received any response. The three expatriate managers intend to depart on April 2; it is unclear how the GOTX will run the hotels afterwards.

¶4. Comment: We have all noticed the decline of the Grand Turkmen and Ak Altyn over the last year; many embassies and companies have been shifting business to the President and Nissa hotels, which are owned by the Presidential Apparatus and managed by a team of Italians. We have just occupied our new Public Diplomacy Center in the Ak Altyn (which also houses the British, French, German and Japanese Embassies) and will be working with the MFA to determine how best to protect our interests.

¶5. Comment continued: The sad Starwood saga is yet another example of the declining business environment in Turkmenistan. As is typical, the construction of hotels, factories and other properties is financed from the off-shore

Presidential Fund, but government ministries do not have the budget to maintain them. It is possible that the Tourism Ministry's problems with financing result from the Presidential Apparatus's desire to push them out of business in favor of its own, newer properties. The overall hotel market here is difficult, and even the best hotel has low occupancy rates. It is typical of the GOTX approach to economic development that rather than investing in the infrastructure of the hotels themselves (or improving the overall climate for foreign business people and tourists) the GOTX is attempting to boost occupancy by forbidding single expats from renting apartments or houses.

JACOBSON